

To: Public Service Commission of Wisconsin

From: Wisconsin Utilities Association, Municipal Electric Utilities of Wisconsin,
Wisconsin Public Power Inc.

Re: Quadrennial Planning Process II
Request for Comments – Docket 5-FE-100

Date: March 14, 2014

On behalf of the Wisconsin Utilities Association (WUA), Wisconsin Public Power Inc. (WPPI) and the Municipal Electric Utilities of Wisconsin (MEUW), we offer the following joint comments in response to the Commission's request for comments regarding the Quadrennial Planning Process.

1. Role of Focus in Positioning Wisconsin to Cost-Effectively Meet Federal Carbon Standards.

Questions to Consider

- a. Assuming demand-side energy efficiency will be an allowable compliance mechanism, should Focus be used to cost-effectively meet federal carbon standards? Why or why not?

The State of Wisconsin should take the position that demand-side energy efficiency (DSM) should be an allowable compliance mechanism under any federal program to regulate carbon emissions from existing fossil-fueled power plants. DSM can reduce generation and emissions from existing fossil-fueled power plants. Avoided emissions and/or reduced generation attributable to DSM should be recognized in Wisconsin's state implementation plan, and counted toward utilities' compliance obligation. Any state implementation plan developed by Wisconsin in response to a federal carbon standard should allow our customers' investment in DSM through Focus on Energy as a compliance option. Also, third party DSM programs, such as Focus, should not be disadvantaged as a possible utility compliance option, compared to utilities in other states that directly manage DSM programs. Similarly, Focus renewable energy programs should be an allowable compliance mechanism under any federal carbon standards.

- b. What changes to Commission policies regarding energy and demand savings would better position Focus to assist in the state's compliance with federal carbon standards?

WUA, WPPI and MEUW have no specific changes to suggest at this time. Any potential changes will depend on the proposed federal carbon standards for existing fossil-fueled power plants and, after the final federal carbon standards are issued, the program design in Wisconsin's state implementation plan. Any draft federal carbon rules should be reviewed with respect to the eligibility of

credits generated from Focus. Comments on any draft carbon rule should concentrate on ensuring that credits from Focus are eligible for utility compliance with federal carbon rules. These comments should be based on Focus as it currently exists. If it is determined that credits from Focus are not eligible for compliance either entirely or partially, determine the changes needed to Focus to allow use of Focus credits by electric utilities for compliance with carbon rules for existing fossil power plants.

- c. What changes in the design and implementation of Focus programs would better position Focus to assist in the state's compliance with federal carbon standards?

No specific changes to suggest at this time. Refer to the answer to the previous question.

- d. How should carbon attributes of energy efficiency savings be assigned or obtained?

The carbon attributes or energy savings associated with Focus DSM programs can be quantified for compliance use by Wisconsin utilities with either a mass (e.g., tons) or rate (e.g., lbs. /MWh) based carbon standard. The carbon attribute or energy savings could be expressed either in units of mass (tons) or energy (MWh), respectively, depending on the form of the performance standard and compliance methodology.

2. Energy and/or Demand Emphasis.

Questions to Consider

- a. Should energy and demand reductions be of equal priority when setting Focus goals? If not, which should receive priority and why?

During the first Quadrennial Planning Process the Commission determined that:

The contract between the Statewide Energy Efficiency and Renewable Administration (SEERA) and the Program Administrator is to emphasize energy savings by establishing energy savings goals that are more aggressive than the demand reduction goals. In addition, the performance bonus mechanism should continue to emphasize energy savings.

WUA, WPPI and MEUW believe it is appropriate that the emphasis between energy and demand reductions should have equal priority. It is important to keep in mind the ramifications for program design and implementation. Ultimately energy reduction will impact existing generating resources and demand reduction will impact incremental and future generating capacity.

- b. To what extent can the relative emphasis between energy and demand savings affect Focus' ability to help achieve carbon reduction goals?

Energy efficiency programs reduce both energy and demand. Most of the measures installed through energy efficiency programs will have a positive

impact in achieving carbon reduction goals. An integrated approach of energy efficiency, distributed resources, demand response, and rate design can help address near-term carbon emissions and reduce long-term carbon restraints. Direct load control and demand response efforts should still be addressed during the rate case process and should not be a function of the Focus program. This will provide opportunities for all customer types participating in Focus on Energy.

- c. To what extent can the relative emphasis between energy and demand affect Focus' ability to influence future statewide capacity needs?

Weighting energy and demand by program or business segments could influence future statewide capacity needs. For example, it may be appropriate to provide performance bonus programs that influence large demand reduction opportunities in the Large Energy User segment (e.g. manufacturing process, HVAC, and lighting), but that emphasize energy savings for other business segments such as Small and Medium-Sized Manufacturers. A weighting process would need to be investigated further by all stakeholders.

3. Overall Energy goal Rather than Specific Goals for kWh, kW, and Therms

Questions to Consider

- a. What are the advantages to establishing an overall savings goal for Focus, compared to establishing specific kWh and therm goals? What disadvantages?

WUA, WPPI and MEUW generally support actions that add flexibility to the Focus on Energy program in ways that enable the program administrator to adapt quickly and efficiently to market factors and remain as cost-effective as possible with ratepayer dollars. Accordingly, a moderate but limited “therm to kWh exchange” option, similar to the one the Commission recently ordered for Focus on Energy, offers a reasonable yet regulated level of flexibility to the program administrator to adapt to such market changes, while still maintaining a full menu of options available to all customer segments. We do, however, wish to prompt the Commission with several new significant planning and program challenges to review when considering whether to escalate the “therm to kWh savings exchange” to an overall energy goal rather than specific electric and natural gas metrics. See 3b and 3c below.

- b. What methods and considerations are appropriate in establishing overall savings goals?

First, broadening this approach will have the potential to increase cross-subsidization of program benefits among ratepayers. Both electric utilities and natural gas utilities recover from ratepayers their respective shares of the statewide energy efficiency and renewable resource programs, per the guidelines outlined in 2005 Wisconsin Act 141. These collections are used to fund and administer a comprehensive portfolio of programs available to all ratepayers through Focus on Energy. Should the Commission decide to transition to an overall energy goal independent of electric and natural gas targets, electric efficiency measures will be favored in the short term by the program administrator over natural gas efficiency measures because of decreased natural gas spot prices. Low fuel prices compared to recent history creates a market

barrier for customers and trade allies pursuing natural gas efficiency projects, which will lead to cross-subsidization of electric ratepayers by natural gas ratepayers in the absence of specific fuel-based goals.

Second, one of the key objectives of Focus on Energy is to address market barriers to energy efficiency in Wisconsin; an objective that will be detracted by an overall energy goal. Wis. Stat. §196.374(2)(a)2.c. states that the [Focus on Energy] program must include initiatives and market strategies that address the needs of ratepayers who face the “most significant barriers” to creation of or participation in markets for energy efficiency products. Today’s low natural gas prices are a perfect example of a significant barrier to participation in markets for energy efficiency products. In the next Quadrennial Planning Process the market barriers may be entirely different, but the point being that the Focus on Energy program should remain diligent in this objective with consistent and effective programs that target clear and specific kWh and therm goals.

- c. If an overall energy savings goal is established, should minimum levels of kWh and therm savings still be required? If so, how should those thresholds be determined?

If an overall energy savings goal is pursued for the Focus on Energy, WUA, WPPI and MEUW ask the Commission to: 1) set substantial kWh and therm thresholds that do not compromise the totality of the Focus on Energy portfolio for all customer segments, and 2) to review the performance incentive structure available to the program administrator so ensure that the goals of the program administrator do not conflict with the goals of the Quadrennial Plan and 2005 Wisconsin Act 141.

4. Examine Effective Rate Impact Mitigation Strategies that could be achieved in the Planning Period.

Questions to Consider

- a. How does the cost of cost-effective energy efficiency compare to the cost of carbon mitigation strategies? Should this difference be considered in determining whether to implement rate mitigation strategies?

The rate mitigation ability of DSM as a carbon reduction strategy will depend on how the costs of energy efficiency compare to other compliance options that may be included in Section 111(d) state implementation plans. Determining this will require more detailed analysis by specific utility system.

- b. What rate mitigation strategies do you see being effective?

WUA, WPPI and MEUW recommend adding either a program or measure level rate impact test for advisory purposes only. Several other states use the ratepayer impact measure (RIM) as a secondary cost effectiveness test as it provides an indication of the impact a program or measure has on non-participants. In a select few states, the RIM test is the primary test, but those states tend to focus on demand savings as compared to energy savings, which does not align with current Wisconsin policy.

5. Renewable Energy

Questions to Consider

- a. How should renewable resource program cost effectiveness be determined?

WUA, WPPI and MEUW believe it is appropriate for the Commission to continue to determine the cost-effectiveness of customer-sited renewable resource measures and programs in the same manner as energy efficiency measures and programs.

- b. How should the goals and funding levels for renewable resource programs be determined?

WUA, WPPI and MEUW believe that the current goals and funding levels for renewable resource programs are appropriate and should be continued.

- c. Are there criteria that should be applied to renewable resource funding, either as a whole (such as maintaining a minimum portfolio level of cost-effectiveness) or by measure or measure group (such as the Group 1 and Group 2 funding currently in place)?

WUA, WPPI and MEUW support the \$10 million funding level and the Group 1 and Group 2 funding allocation currently in place. It is appropriate to again make the funding level contingent upon maintaining a Focus program portfolio benefit-to-cost ratio of at least 2.3 and a reduction in energy savings of the portfolio of Focus programs due to inclusion of renewable resource measures of no more than 7.5 percent.

Group 1 technologies typically involve stand-alone and separately negotiated power purchase agreements with a utility that can directly provide compensation appropriate to the value provided taking into consideration any Focus incentives that can reduce costs to the host. Group 2 technologies on the other hand typically take advantage of net metering and consequently receive significant incentives supported by the rates of all customers in addition to any direct incentives available through Focus. These rate subsidies exceed the direct benefits received by all other (i.e. non-host) customers. While these indirect incentives embedded in current retail rate designs will likely be incrementally addressed in different individual utility rate cases in the next several years, unless and until these indirect subsidies can be fully addressed, it is appropriate to limit the availability of Focus incentives available to the Group 2 technologies.